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SECURITY INFORMATION

C E N T R A L I N T E L L I G E N C E A G E N C Y

13 February 1953

SUBJECT: PROPOSED TERMS OF REFERENCE: SE-37: PROBABLE
EFFECTS OF VARIOUS POSSIBLE COURSES OF ACTION
WITH RESPECT TO COMMUNIST CHINA (Draft for
consideration by the Board)

THE PROBLEM

To examine the current status and effectiveness of controls on trade with Communist China, to examine the short and long term effects on the capabilities of the Chinese Communist regime of a complete embargo, a naval blockade, aerial interdiction of inland transportation routes, a Chinese Nationalist effort at blockade and aerial interdiction, and a combination of blockade and aerial interdiction, and to estimate Communist reactions to these measures.

(Note to the contributors: The terms of reference follow closely the form and outline of SE-27 and are given here in full. It is suggested that the terms of reference be checked against the text of SE-27 and that in paragraphs or sections of SE-27 where there is no change, the contribution merely refer

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to pertinent paragraphs of SE-27. Minor changes should also be indicated. Complete terms of reference are necessary in order to clearly define the scope of the paper, but it is hoped that by following the procedure above research may be restricted to the areas in which new or better information is required.)

QUESTIONS BEARING ON THE PROBLEM

- I. WHAT IS THE CURRENT STATUS OF THE IMPLEMENTATION OF CONTROLS ON TRADE WITH COMMUNIST CHINA? WHAT ARE THE CONTROLS IMPOSED BY VARIOUS NATIONS, HOW ARE THEY ENFORCED, AND WHAT ARE THE MAJOR TYPES OF CIRCUMVENTION OF THE CONTROLS?
- II. WHAT HAS BEEN THE EFFECT TO DATE OF CONTROLS ON TRADE WITH COMMUNIST CHINA ON THE CAPABILITIES OF THE CHINESE COMMUNIST REGIME?
 - A. What has been the effect of trade controls on Communist China's ability to import?
 1. What sea-borne imports (including estimates of smuggling) has Communist China received since controls were first applied, with special reference to the current volume and composition, and trends since the publication of SE-27? (June 1952)

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2. What sea-borne imports has Communist China "lost" as a result of present control measures with special reference to the period since the publication of SE-27?
 3. To what extent have Soviet Bloc shipments to Communist China offset the "loss" of imports caused by Western trade controls? Estimate the composition and volume of Soviet Bloc trade with Communist China with special reference to current volume and composition, and trends since the publication of SE-27?
- B. What has been the cumulative effect of this "loss" of imports on Communist China's economy?
1. What industries have been effected, and to what extent? What is the importance of these industries to the Chinese Communist war effort in Korea? What is the importance of these industries to the stability and development of the Chinese Communist economy?
 2. What has been the effect on transportation? What repercussions have transportation difficulties had?
 3. Have there been any significant effects in the non-industrial segments of the economy such as finance and agriculture?

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- C. What has been the effect of economic dislocations caused by these controls on Communist China's military capabilities, especially in Korea?
- D. To what extent and in what manner have controls on trade with Communist China affected the ability of the regime to maintain political control in China?

III. WHAT WOULD BE THE EFFECTS OF A TOTAL EMBARGO OF ALL REPORTS FROM ALL NON-SOVIET BLOC COUNTRIES ON THE CHINESE COMMUNIST ECONOMIC AND POLITICAL STRENGTH, AND ITS MILITARY CAPABILITIES? (In this section the same assumptions made in paragraphs 25 and 26 of SE-27 will be made)

- A. What would be the effects of a complete economic embargo on Communist China's trade pattern over the next year?
 - 1. What is the probable amount and composition of trade with non-Bloc areas that would be "lost"?
(Estimate the amount and composition of Communist China's trade with the non-Communist world for the next year assuming a continuation of the present controls.)
 - 2. What items would be smuggled into Communist China and in what volume?
 - 3. What would be the composition and volume of Communist China's imports from the rest of the Soviet

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Bloc? What upper limits would be imposed by transportation shortages?

4. What would be the net loss in imports as a result of a total embargo?

B. How would this "loss" of imports affect Communist China's economy?

1. What would be the effects on the industrial segment of Communist China's economy? What is the importance of the affected industries to the war effort in Korea, to the Chinese Communist economy as a whole?
2. What would be the effects on transportation? What would be the repercussions of these effects to the rest of the economy?
3. What would be the effects in other sectors of the economy such as fiscal and agriculture?
4. What is the ability of the Chinese Communist economy to replace the "lost" commodities from domestic sources? What would be the diffused effects of shortages and of altering production patterns so that these items would be produced domestically?

C. What would be the effects on Chinese Communist military capabilities with special reference to their ability to sustain operations in Korea?

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1. Would there be any cut-back in munitions production, in civilian type goods used by the Army?
 2. Would there be any effect on the ability of transport troops and military logistical support?
- D. What would be the extent and nature of the effects of an economic embargo on the regime's ability to maintain political control on the Chinese mainland?
- E. What effect might a complete economic embargo have on economic, political, and military relations between the Chinese Communists and the USSR?
- F. What would be the effect of a complete economic embargo maintained over a period of several years (2 or more) on Communist China's military capabilities and over-all economic and political strength? (Answer generally in terms of B through F above.)
- G. What factors would tend to prevent a full embargo from being imposed? (In SE-27 this question is not discussed in the body of the paper since the assumption is made in paragraph 25 that it would be completely effective. The likelihood of less than 100 percent effectiveness, with supporting reasons, was noted in conclusion number 2 however, At the insistence of the Navy, I believe and

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we shall probably have the same problem again so may as well get the poop.) To what extent would these factors reduce the effectiveness of an embargo?

IV. WHAT WOULD BE THE EFFECTS OF A NAVAL BLOCKADE ON COMMUNIST CHINA'S ECONOMIC AND POLITICAL STRENGTH AND ITS MILITARY CAPABILITIES?

- A. Assuming that arival blockade would cut off substantially all of Communist China's seaborne imports, what would be the extent and composition of Communist China's overland trade with the Soviet Bloc?
 1. What limitations would be placed on this trade by the capacity of land transportation routes into Communist China?
 2. What limitations would be placed on this trade by the current capacity of inland transportation routes within Manchuria and Communist China? What is the capability of Communist China to increase the current capacity of these routes under conditions of a blockade? What assistance could the USSR provide to increase the capacity of these routes?
 3. What economic strains would be placed on the USSR if it attempted to provide Communist China with both its essential military and economic requirements?

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If it attempted to provide Communist China with sufficient assistance to support a gradual expansion of the Chinese Communist economy? Could the USSR provide assistance on this scale without serious effects on its own planned economic development?

- B. What would be the effects of a naval blockade on Communist China's ocean-going coastal traffic?
1. What is the extent, composition, and geographical distribution of this coastal trade?
 2. How much of this trade would be cut off by a naval blockade?
 3. What is the ability of the inland transportation system of Communist China to carry this ocean-going coastal traffic, in addition to the increased overland imports from the Soviet bloc projects in "A" above?
- C. What would be the short-term effects of the dislocations, shortages, and additional costs, caused by a naval blockade, on the Chinese Communist economy?
1. What would be the short-term effects of a naval blockade on the military capabilities of the regime, especially with reference to its ability to sustain military operations in Korea?

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2. What would be the short-term effects of a naval blockade on the regimes ability to maintain political control over the Chinese people?
 3. What would be the short-term effects of a naval blockade on Communist China's political, economic, and military relations with the USSR.
- D. If a naval blockade were maintained over an extended period of time — 2 to 5 years — what would be the effects on the over-all economic, political, and military strength of the regime?
1. Would the USSR be able gradually to increase its economic assistance to Communist China?
 2. What would be the probable trend in the industrial sector of the Chinese Communist economy? In the monetary and fiscal situation? In transportation? In agricultural production and distribution?
 3. What would be the probable trend in economic, political, and military relations between the USSR and Communist China?
- V. WHAT WOULD BE THE EFFECTS OF BOMBARDING THE INTERNAL LINES OF COMMUNICATION IN COMMUNIST CHINA IN CONJUNCTION WITH A NAVAL BLOCKADE?

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- A. Have there been any changes in the list of vulnerable targets within Communist China since the publication of SE-27?
- B. What would be the effect on Communist China's ability to sustain military operations in Korea of successful ^{air} and sustained bombardment on these targets?
- C. What would be the economic and political effects of successful bombardment of transportation routes in Communist China?
- D. What are Communist capabilities to resist air bombardment of lines of communication in Manchuria and China?

VI. WHAT WOULD BE THE EFFECT OF A CHINESE NATIONALIST EFFORT TO BLOCKADE THE CHINA COAST AND TO CONDUCT AIR STRIKES AGAINST INLAND LINES OF COMMUNICATION ON COMMUNIST CHINA'S MILITARY CAPABILITIES, AND ECONOMIC AND POLITICAL STRENGTH?

- A. What are the capabilities of the Chinese Nationalists to prevent ocean shipping from entering Chinese Communist ports?
- B. What are the capabilities of the Chinese Nationalists to conduct air strikes against lines of communication on the China mainland?

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- C. What are Chinese Nationalist capabilities to defend themselves against retaliatory air or naval attacks by the Chinese Communists?

VII. WHAT WOULD BE THE PROBABLE COMMUNIST REACTION TO:

1. A complete economic embargo?
2. A naval blockade?
3. A naval blockade and an air bombardment of inland lines of communication?
4. A naval blockade and air bombardment by the Chinese Nationalists alone?